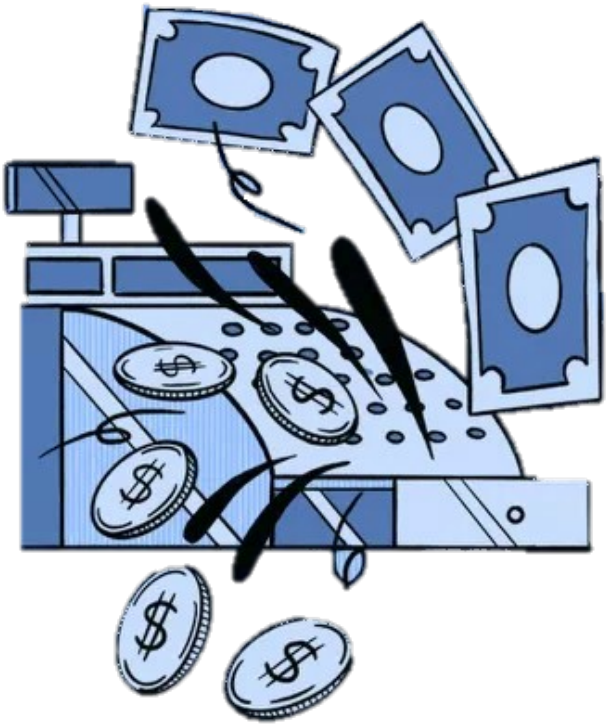
MAINTAINING PETTY CASH RECORDS



NOTES BY IDREES SAFI

How Petty Cash Works

Petty cash is a small amount of money that a business keeps on hand to pay for minor expenses. Instead of processing a full payment through the bank for small costs like office supplies or travel fares, businesses use petty cash for quick and easy transactions. Below is a step by step explanation of how the petty cash system works:

Step 1: Employee Pays for a Business Expense

An employee may need to buy something for work, such as office supplies, snacks for a meeting, or bus fare for a work related trip. In such cases, the employee first pays for the expense using their own money. After making the payment, the employee must obtain a receipt as proof of purchase.

Step 2: Employee Reclaims the Expense

Once the employee has the receipt, they can request reimbursement from the petty cash system. To do this, they must complete a petty cash voucher (a small form that records petty cash transactions) and attach the receipt. The voucher must then be signed by an authorized person before the employee can receive cash.

Step 3: Recording the Expense in Company Accounts

The business must record the expense in its financial records. This ensures that all petty cash spending is properly accounted for and that the cash balance remains accurate.

Documentation (Ensuring Proper Use of Petty Cash)

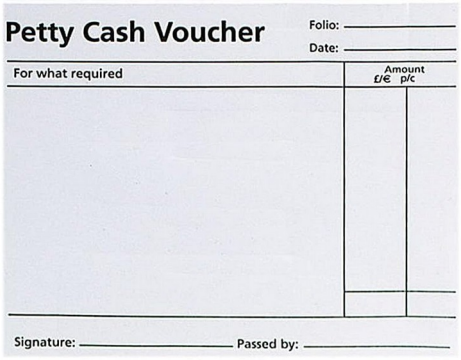
To prevent misuse of petty cash, businesses set rules for authorizing and documenting expenses. This ensures that petty cash is only used for valid business purposes.

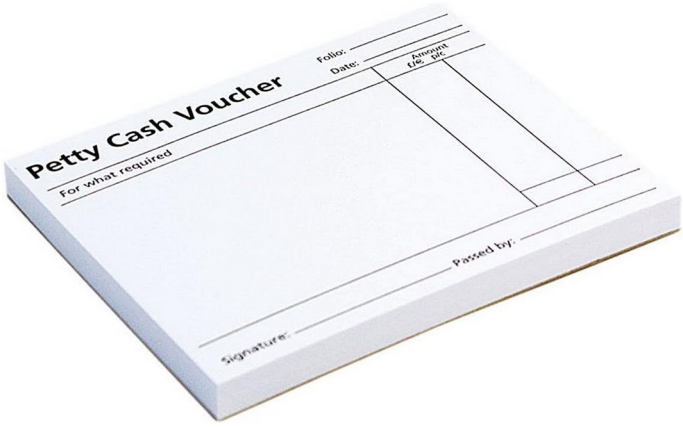
Authorization System: A designated person (such as a petty cashier or accountant) must approve each petty cash request.

Proper Documentation: Every payment must be recorded with receipts or other supporting documents.

Petty Cash Vouchers

A petty cash voucher is a small form used to record petty cash transactions. Businesses buy these vouchers in pads, and each voucher is torn off when used.





How to Fill Out a Petty Cash Voucher

When making a petty cash claim, employees must complete a voucher with the following details:

1. Unique Identification Number each voucher should have a unique number for tracking. The petty cashier numbers the vouchers sequentially.

2. Date the date when the voucher is filled out and approved.

3. Expense Details a brief description of what was purchased and why.

4. Amount the exact amount spent. If there is sales tax, the amount should be broken down into:

- Expense amount (excluding tax)
- Sales tax amount
- Total amount (including tax)

5. Receipt Attachment the receipt should be attached to the voucher using a paper clip or staple.

6. Employee's Signature the person requesting the petty cash must sign the voucher.

7. Authorization Signature the person approving the expense (such as a petty cashier or manager) must also sign the voucher.

Authorization (Who Can Approve Petty Cash Claims?)

Different businesses have different rules for authorizing petty cash claims. The following are common approaches:

1. Petty Cashier: The petty cashier may approve small claims up to a certain limit.

2. Chief Accountant: Claims above the petty cashier's limit may need approval from a senior official.

3. Other Officials: Some businesses require managers to approve expenses related to their teams.

Authorization Procedure

Before approving a petty cash request, the authorizing person must check:

1. Supporting Documents the claim should be backed by a valid receipt or other proof of expense.

2. Spending Limit the amount must not exceed the petty cash limit. If it does, the expense should be reimbursed through other methods, such as a bank transfer or cheque.

If the claim is not properly authorized, the petty cashier should refuse to make the payment.

Supporting Documentation (Proving the Expense is Genuine)

To ensure that all petty cash claims are for legitimate business expenses, employees must provide proper documentation before getting reimbursed.

Types of Expenses That Require Documentation

Most petty cash expenses are simple office-related costs, such as:

- Coffee, tea, or snacks for the office
- Postage stamps
- Bus or taxi fares for business travel

For such expenses, a receipt or till roll printout is enough proof. For public transport fares, the ticket itself can serve as proof of payment.

Sales Tax Considerations

If an expense includes sales tax that the business can reclaim, the receipt must include:

- The supplier's name
- The supplier's tax registration number

Most till receipts already contain this information.

What If There Is No Supporting Receipt?

Sometimes, an employee might lose a receipt or pay for something that does not provide a receipt (e.g., train tickets collected at the barrier). In such cases:

- A manager may need to approve the claim based on trust.
- Additional documentation may be required, such as a written explanation.

Payments in Advance (When Employees Need Cash Before Buying)

Sometimes, an employee may not have enough money to pay for a business expense upfront. In such cases, they may request an advance payment from petty cash.

Procedure for Advance Payments

1. Employee Requests Cash in Advance the employee explains why they need the money and how much they need.

2. Authorization a manager or authorized person approves the advance.

3. Initial Petty Cash Voucher a voucher is filled out for the amount given to the employee.

4. Purchase Made & Receipt Collected the employee buys the item and keeps the receipt.

5. Change Returned & Final Record Updated the employee gives back any leftover money along with the receipt. The original petty cash voucher is then updated with the actual expense amount.

Security of Petty Cash

Since the petty cash is a physical cash, it is vulnerable to theft or loss. Therefore, it is crucial to have proper security measures in place.

How Petty Cash is Stored

Petty cash is usually kept in a metal tin or lockable box to prevent unauthorized access. The tin contains:

- Notes and coins for making payments
- A pad of petty cash vouchers for recording expenses

Petty Cash Top-Up

Since petty cash is used regularly, it needs to be topped up periodically. This is done by withdrawing money from the company's bank account, usually by writing a cheque labeled "Pay Cash."

Security Measures for Petty Cash

To minimize the risk of theft or misuse, businesses should follow these security measures:

1. Keep the Petty Cash Tin in a Secure Place

- It should be stored in a locked desk drawer or cabinet when not in use.
- Only designated employees should know where the key is kept.

2. Restrict Access to Petty Cash

- Only one or two authorized employees should handle petty cash payments.
- This prevents unauthorized use and helps keep accurate records.

3. Limit the Amount of Cash Kept on Hand

- Businesses should keep only the necessary amount of cash to reduce the risk of major loss in case of theft.
- If more money is needed, it should be withdrawn from the bank when required.

Handling Queries and Problems in Petty Cash Claims

Sometimes, issues arise when processing petty cash claims. These must be addressed carefully to maintain proper control over petty cash.

Common Issues with Petty Cash Claims

1. Missing Authorization

- Each petty cash voucher must be signed by an authorized person.
- If a claim is missing authorization, the employee should be informed that petty cash claims cannot be paid without proper approval.
- If both authorized signatories are absent, the claim should be referred to a senior official for approval.

2. Lack of Supporting Documentation

- If an employee forgets to obtain a receipt or if the expense does not provide one (e.g., bus fare), the claim must be reviewed.
- Some businesses have policies for handling missing receipts, such as requiring a signed statement from the employee.

- If no policy exists, the issue should be referred to a senior official.

3. Claim Exceeds the Petty Cash Limit

- If a petty cash claim is too large, the employee should be asked to submit an expense claim form instead.
- Larger expenses should be reimbursed through a bank transfer or cheque payment.

Manual Petty Cash Book (Recording Transactions)

Although petty cash transactions involve small amounts, they must still be recorded properly to ensure financial accuracy. A petty cash book is used for this purpose.

What is a Petty Cash Book?

A petty cash book is a financial record where all petty cash transactions are written down. It functions like a cash book but is specifically for petty cash payments.

Types of Transactions Recorded

1. **Payments for Expenses** most petty cash transactions are small business expenses such as office supplies, travel fares, or postage costs.

2. **Cash Withdrawals for Replenishing Petty Cash** when cash is withdrawn from the bank to top up petty cash, it must be recorded.

- In the petty cash book, it is recorded as cash received.
- In the cash book (bank record), it is recorded as a cash payment.

How to Record Transactions in the Petty Cash Book?

Structure of the Petty Cash Book

The petty cash book is divided into two sides:

1. Cash Receipts Side (Money added to petty cash)

- Only records cash received when petty cash is topped up from the bank.
- No need for detailed breakdowns since it is a single transaction type.

2. Cash Payments Side (Money spent from petty cash)

- This side has multiple analysis columns to record different types of expenses.
- The following is a Petty Cash Book:

SAFI Group of Companies Petty Cash Book								
Date	**Receipts $ (DR)**	**Details**	**Voucher/ Ref no.**	**Total (CR)**	**Sales Tax $ (CR)**	**Travel (CR)**	**Office Supplies (CR)**	**Postage (CR)**
Jan 01 Jan 01 Jan 02 Jan 02	200$	Taxi Fare Paper Postage	101 102 103	$10.00 $15.00 $5.00	$2.50	$10.00	$12.50	$5.00
		TOTAL		**$30.00**	**$2.50**	**$10.00**	**$12.50**	**$5.00**

Recording Petty Cash Payments

Recording petty cash transactions properly is essential for financial accuracy and transparency. The petty cash book is used to keep track of all petty cash payments, ensuring that every transaction is documented and can be accounted for in the company’s financial records.

Source Documents for Petty Cash Payments

The primary document for recording petty cash payments is the petty cash voucher.

- Each petty cash voucher represents one petty cash transaction.
- Every voucher must be entered on a separate line in the petty cash book.
- The petty cash book is updated at regular intervals, typically every time petty cash is topped up.

2. Recording Petty Cash Vouchers in the Petty Cash Book

To ensure proper tracking:

- Petty cash vouchers should be recorded in sequential order based on their unique identification number.
- This helps maintain order and ensures no transaction is missing.

1. Each entry in the petty cash book should include:
2. Date of Transaction
3. Petty Cash Voucher Number
4. Details of the Expense (e.g., taxi fare, office supplies, postage, etc.)
5. Total Amount Paid (including sales tax if applicable)
6. Expense Breakdown in Analysis Columns (excluding sales tax)
7. Sales Tax Amount (if applicable)

Example: Recording Petty Cash Transactions and Posting to the General Ledger

A business maintains a petty cash fund to cover small office expenses. The following transactions occurred during February 2025, the imprest amount is $100 which was paid into the petty cash box.

Record the transactions in Petty Cash Book and then post is to the General Ledger?

Petty Cash Vouchers

SAFI GROUP OF COMPANIES

Petty Cash Voucher
No. 201
Date: 05/02/2025

For what required	Amount $ ¢
Taxi Fare	$12.00
Signature **Authorized**	

SAFI GROUP OF COMPANIES

Petty Cash Voucher
No. 202
Date: 05/02/2025

For what required	Amount $ ¢
Printing Paper ***Including VAT @20%***	$18.00
Signature **Authorized**	

SAFI GROUP OF COMPANIES

Petty Cash Voucher
No. 203
Date: 05/02/2025

For what required	Amount $ ¢
Stationary ***Including VAT @20%***	$25.00
Signature **Authorized**	

SAFI GROUP OF COMPANIES

Petty Cash Voucher
No. 204
Date: 05/02/2025

For what required	Amount $ ¢
Postage Stamps	$5.00
Signature **Authorized**	

Recording Transactions in the Petty Cash Book

SAFI Group of Companies Petty Cash Book								
Date	**Receipts $ (DR)**	**Details**	**Voucher/ Ref no.**	**Total (CR)**	**Sales Tax $ (CR)**	**Travel (CR)**	**Office Supplies (CR)**	**Postage (CR)**
Feb 01 Feb 05 Feb 05 Feb 05 Feb 05	100$	Taxi Fare Paper Stationary Postage	201 202 203 204	$12.00 $18.00 $25.00 $5.00	$3.00 $4.20	$12.00	$15.00 $20.8	$5.00
		TOTAL		**$60.00**	**$7.20**	**$12.00**	**$35.80**	**$5.00**

Step 2: Posting to the General Ledger

Each expense from the petty cash book is posted to the appropriate ledger account.

Petty Cash

DR

CR

Feb 01 $100	Bank		Feb 05 $12.00 Feb 05 $15.00 Feb 05 $20.80 Feb 05 $5.00	Taxi Fare Paper Stationary Postage	
		$100			
b/d **$47.20**			**c/d $47.20**		$100

Bank

DR

CR

		Feb 01 $100 $100	Petty Cash

Travel Expense Account

DR

CR

Feb 05 $12.00	Petty Cash $12.00	 $12.00	

Office Supplies Account

DR

CR

Feb 05 $35.80	Petty Cash $35.80	 $35.80	

Postage Expense Account

DR

CR

Feb 05 $5.00	Petty Cash $5.00	 $5.00	

Sales Tax

DR

CR

Feb 05 $7.20	Petty Cash $7.20	 $7.20	

Imprest and Non Imprest Methods of Petty Cash

There are two primary methods for managing it: the imprest system and the non imprest system.

1. Imprest System for Petty Cash

How the Imprest System Works

- A fixed amount of money, called the imprest amount, is set aside for petty cash expenses.
- As employees use the petty cash, they fill out petty cash vouchers for each expense.
- At regular intervals (e.g., weekly or monthly), the petty cash is topped up to restore it to the original imprest amount.
- The amount needed to top up is equal to the total value of the petty cash vouchers used since the last top up.

Example:

- Suppose the imprest amount is $200.
- Over two weeks, employees spend $140 on petty cash expenses.
- At the end of the two weeks, the cashier withdraws $140 from the bank and replenishes the petty cash back to $200.

2. Non Imprest System

How the Non Imprest System Works

- Instead of maintaining a fixed imprest amount, the business adds a fixed sum of money to petty cash at set intervals.

Example:

- A business estimates that petty cash expenses are $50 per week.
- Every two weeks, the cashier adds $100 to the petty cash fund, regardless of how much has been spent.

Differences Arising in Petty Cash Reconciliation

When reconciling petty cash, the total of cash remaining in the box plus the total value of petty cash vouchers should always equal the original imprest amount. However, sometimes differences arise, meaning the numbers do not match.

Whenever a difference arises, it must be investigated immediately to identify the cause and correct any errors.

Common Causes of Differences in Petty Cash

1. **Petty Cash Vouchers Made Out for an Incorrect Amount, but the Correct Amount Paid in Cash**

- **Example:**
- An employee buys office supplies for $25 but mistakenly writes $20 on the petty cash voucher.
- At reconciliation, the recorded expenses are $5 less than what was actually paid out.

- **How to Fix:**

- Check receipts with the petty cash vouchers to find errors.

- Correct the voucher amount and update the petty cash book accordingly.

2. Incorrect Amount Paid Out in Cash

- **Example:**
- An employee submits a claim for $30 but is mistakenly given $35 from the petty cash box.
- There will be a $5 shortage when reconciling petty cash.

- **How to Fix:**

- The error should be noted in the petty cash book and the extra money recovered from the employee.

- Proper authorization and double-checking payments can prevent future mistakes.

3. Money Stolen from the Petty Cash Box

- **Example:**
- The petty cash reconciliation shows that $50 is missing, with no supporting vouchers or records.
- This suggests that cash has been stolen or misplaced.

- **How to Fix:**

- Investigate immediately by checking security footage (if available) and questioning those with access.

- Strengthen security measures by:

- Keeping the petty cash box locked in a secure place.

- Limiting access to authorized personnel.

- Conducting surprise cash counts to detect theft early.